

Report on

Market Conduct Examination

of the

Metropolitan Property & Casualty Insurance Company
Metropolitan Direct Property & Casualty Insurance Company
Economy Preferred Insurance Company
Economy Fire & Casualty Insurance Company

Warwick, Rhode Island

by Representatives of the
North Carolina Department of Insurance

as of

September 8, 2016

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Raleigh, North Carolina
September 8, 2016

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Elizabeth Kelleher Dwyer
Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Honorable Commissioner and Honorable Superintendent:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

Metropolitan Property & Casualty Insurance Company (NAIC #26298)
Metropolitan Direct Property & Casualty Insurance Company (NAIC #25321)
Economy Preferred Insurance Company (NAIC #38067)
Economy Fire & Casualty Insurance Company (NAIC #22926)
NAIC Exam Tracking System Exam Number: NC-NC299-4
Warwick, Rhode Island

hereinafter generally referred to as the Companies, at the Companies' home office located at 700 Quaker Lane, Warwick, Rhode Island and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Department conducted a target examination of the Companies. This examination commenced on April 4, 2016, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Companies being conducted through September 8, 2016. This action was taken due to market analysis on private passenger automobile new business. All comments made in this report reflect conditions observed during the period of the examination.

The examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive and solely consisted of an examination of the Companies' practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside of certain tolerance levels. The Department applied a 0 percent tolerance level for the use of forms and rates/rules that were neither filed with nor approved by the Department and 5 percent for all other areas reviewed. Sample sizes were generated using Audit Command Language (ACL) software. The Department utilized a 95% Confidence Level to determine the error tolerance level.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Companies' procedures and practices in the following areas:

Marketing – Policy Forms and Filings: Use of a private passenger automobile consent to rate form not filed with and approved by the Department.

Underwriting Practices – Private Passenger Automobile: Proper notice not given to the insured before cancelling physical damage coverages, failure to maintain policy records, premium refunds were not calculated correctly, and consent to rate notice not given prior to issuing policy.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking “INSURANCE DIVISIONS” then “Legislative Services” under “Other Divisions”.

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions must be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

MARKETING

Policy Forms and Filings

Policy forms and filings for the Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Private Passenger Automobile

Filings for the private passenger automobile line of business were made by the North Carolina Rate Bureau on behalf of the Companies. Deviations for this line of business were made to the Department by the Companies.

The Companies did not adhere to the provisions of NCGS 58-3-150 as the consent to rate form used for one private passenger automobile policy was not the current edition filed with and approved by the Department.

UNDERWRITING PRACTICES

Overview

The Companies' marketing in North Carolina is directed mainly to personal lines of business. The Companies provided the examiner with listings of the following type of active policies for the period under examination:

- Private Passenger Automobile

A random selection of 119 policies was made from a total population of 15,308. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

Private Passenger Automobile

The Companies' private passenger automobile policies were written on an annual and semi-annual basis. Coverages were written on a consent to rate basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies did not adhere to the provisions of NCGS 56-36-30(b) as disclosure of consent to rate was not given prior to issuing for 96 policies.

The Companies did not adhere to the policy provisions as physical damage coverages were cancelled without giving the insured proper notice for 33 policies.

The Companies did not adhere to the provisions of 11 NCAC 19.0102(b), 11 NCAC 19.0104, and 11 NCAC 19.0106(a)(4), as the Companies could not provide nine applications.

The Companies did not adhere to the provisions of NCGS 58-36-30(b) and 11 NCAC 10.0602 as premium refunds were not calculated correctly for cancellation of physical damage coverages due to not receiving a signed consent to rate form for seven policies. At the request of

the examiner, the Companies refunded \$600.00. As a result of this finding, the examiner requested that the Companies conduct a self-audit, and issue the appropriate refunds.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies must reinforce procedures to ascertain that physical damage coverages are cancelled from the policy, giving adequate notice when a consent to rate form is not received. Phone calls must be recorded and retained when obtaining the insured's consent using a filed and approved script. The Companies must notify insureds of consent to rate prior to policy issuance. The Companies must utilize a consent to rate form that has been filed with and approved by the Department. When physical damage coverages are removed due to a consent to rate form not received, the return premium must be based on the Bureau premium and not the consent to rate premium.

CONCLUSION

An examination has been conducted on the market conduct affairs of Metropolitan Property & Casualty Insurance Company, Metropolitan Direct Property & Casualty Insurance Company, Economy Preferred Insurance Company, and Economy Fire & Casualty Insurance Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Companies being conducted through September 8, 2016.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Companies' operations in the areas of marketing and underwriting practices.

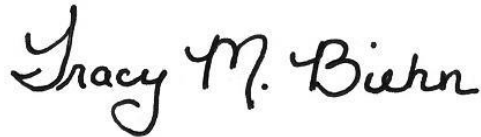
In addition to the undersigned, Gina Abate, MCM, Market Conduct Analyst, participated in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Brooke Hinnant". The script is cursive and fluid.

Brooke Hinnant, MCM
Acting Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The script is cursive and fluid.

Tracy M. Biehn, MBA, MCM, LPCS
Deputy Commissioner
Market Regulation Division
State of North Carolina